

VZCZCXRO1520
PP RUEHFK RUEHKSO RUEHNAG RUEHNH
DE RUEHKO #3151/01 1590140
ZNR UUUUU ZZH
P 080140Z JUN 06
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC PRIORITY 2973
INFO RUEKJCS/SECDEF WASHDC PRIORITY
RHEHAAA/THE WHITE HOUSE WASHINGTON DC PRIORITY
RUEAWJA/USDOJ WASHDC PRIORITY
RULSDMK/USDOT WASHDC PRIORITY
RUCPDOG/USDOC WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RUEKJCS/JOINT STAFF WASHDC//J5//
RHHMUNA/HQ USPACOM HONOLULU HI
RHHMHBA/COMPACFLT PEARL HARBOR HI
RHMFIUU/HQ PACAF HICKAM AFB HI//CC/PA//
RHMFIUU/COMUSJAPAN YOKOTA AB JA//J5/JO21//
RUYNAAAC/COMNAVFORJAPAN YOKOSUKA JA
RUAYJAA/COMPATWING ONE KAMI SEYA JA
RUEHNH/AMCONSUL NAHA 9227
RUEHFK/AMCONSUL FUKUOKA 6610
RUEHOK/AMCONSUL OSAKA KOBE 9843
RUEHNAG/AMCONSUL NAGOYA 6543
RUEHKSO/AMCONSUL SAPPORO 7760
RUEHBJ/AMEMBASSY BEIJING 2679
RUEHUL/AMEMBASSY SEOUL 8852
RUCNDT/USMISSION USUN NEW YORK 0643

UNCLAS SECTION 01 OF 12 TOKYO 003151

SIPDIS

SIPDIS

DEPT FOR E, P, EB, EAP/J, EAP/P, EAP/PD, PA;
WHITE HOUSE/NSC/NEC; JUSTICE FOR STU CHEMTOB IN ANTI-TRUST
DIVISION; TREASURY/OASIA/IMI/JAPAN; DEPT PASS USTR/PUBLIC AFFAIRS
OFFICE; SECDEF FOR JCS-J-5/JAPAN,
DASD/ISA/EAPR/JAPAN; DEPT PASS ELECTRONICALLY TO USDA
FAS/ITP FOR SCHROETER; PACOM HONOLULU FOR PUBLIC DIPLOMACY
ADVISOR; CINCPAC FLT/PA/ COMNAVFORJAPAN/PA.

E.O. 12958: N/A

TAGS: [OIIP](#) [KMDR](#) [KPAO](#) [PGOV](#) [PINR](#) [ECON](#) [ELAB](#) [JA](#)

SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 06/08/06

Index:

- 1) Top headlines
- 2) Editorials
- 3) Prime Minister's daily schedule

China and the Yasukuni issue:

- 4) Defense Secretary Rumsfeld says US will not get involved in Yasukuni issue, seeks to deter China
- 5) Issue of China policy heating up in the LDP presidential race
- 6) Presidential hopeful Abe seeks to avoid making China a campaign issue
- 7) Top business executives' (Doyukai) advice to Prime Minister Koizumi to stop visiting Yasukuni Shrine intended to influence LDP election
- 8) Minshuto (Democratic Party of Japan) President Ozawa's planned trip to China remains up in the air, with concern that China will use visit politically
- 9) Minshuto's Noda seeks to check argument that separating Class-A war criminals will solve Yasukuni issue
- 10) Junior LDP lawmakers cite Yasukuni chief priest who said separating Class-A criminals once enshrined is impossible
- 11) Michael Green: Bad mistake for China to have demanded that Koizumi stop visiting Yasukuni
- 12) Foreign Minister Aso wants EEZ demarcation talks with ROK to be separated from Takeshima issue

Defense affairs:

13) New Komeito head Kanzaki: Bill making JDA a ministry will pass the Diet this fall
14) Tokyo Shimbun columnist not satisfied with rationale for raising JDA to ministry status

15) Diet passes 90% of bills sponsored by the government

Economic front:

16) Japan to join oil field development project in Eastern Siberia
17) LDP tax panel plans basic tax reform in three stages, with hike in consumption tax likely in FY2009
18) Japan to take cautious attitude toward US deficit at upcoming G-8 finance ministers' conference for fear of unsettling exchange rates

Articles:

1) TOP HEADLINES

Asahi, Mainichi and Tokyo Shimbun:
Schindler searched over negligence in fatal elevator accident

Yomiuri:
Police give up on indicting General Management Consultant offices over quake data fraud

Nihon Keizai:
Skylark restaurant chain to be privatized through biggest management buyout in Japan

Sankei:

TOKYO 00003151 002 OF 012

Japan Association of Corporate Executives proposes restraint in visiting Yasukuni

2) EDITORIALS

Asahi:
(1) Government should apologize to and compensate emigrants to the Dominican Republic
(2) We want to view both the original and plagiarized paintings

Mainichi:
(1) Passage of financial products exchange law: Let's use the law to enhance transparency of the market
(2) Lawsuit by emigrants to Dominican Republic: Apology and providing relief is our political responsibility

Yomiuri:
(1) Financial product exchange law: Slick trading practices must be stamped out
(2) Emigrants to Dominican Republic: Foreign Ministry should admit its responsibility

Nihon Keizai:
(1) Substantial debate on integration of communications and broadcasting urged
(2) New law should be used to increase transparency of the market

Sankei:
(1) Suit by emigrants to Dominican Republic: the government should come up with satisfactory relief measures
(2) Reinvigorating the Japanese language: Review of limits to Chinese characters imminent

Tokyo Shimbun:
(1) Emigrants to Dominican Republic: Government must formulate relief measures
(2) Elevator accident: Danger was ignored

3) Prime Minister's Official Residence (Kantei)

Prime Minister's schedule, June 7

NIHON KEIZAI (Page 2) (Full)
June 8, 2006

09:57

Met Education Minister Kosaka, Kanazawa Mayor Yamade, and others at the Japan City Center in Hirakawacho. Afterward attended a national mayoral conference.

10:35

Returned to Kantei.

13:00

Attended an Upper House Budget Committee meeting.

16:30

Met at Kantei with former Ambassador to France Hirabayashi, followed by Consular Affairs Bureau Director-General Tanizaki.

17:00

TOKYO 00003151 003 OF 012

Met Deputy Foreign Minister Yabunaka. Afterward attended a meeting of the Council of Economic and Fiscal Policy.

19:40

Returned to his residence.

4) US to stay away from Yasukuni issue: Rumsfeld

SANKEI (Page 3) (Full)
June 8, 2006

Yoshihisa Komori

WASHINGTON-US Secretary of Defense Donald Rumsfeld has clarified the Bush administration's stance of staying away from the Yasukuni Shrine issue lying between Japan and China. In addition, Rumsfeld has also proposed nonintervention in another country's attitude over the history of past wars. On the Yasukuni issue, he called on China to exercise self-restraint.

According to the US Defense Department's press release on June 6, Rumsfeld, now making a tour of Southeast Asian countries, has clarified that the Bush administration would stay away from the Yasukuni Shrine. "We will leave this matter to the parties concerned in the region," the Pentagon's press release quoted Rumsfeld as saying when he was asked in Singapore on June 4 if the United States would intervene in Japanese Prime Minister Junichiro Koizumi's visits to Yasukuni Shrine for the stability of Japan-China relations. "Both Japan and China wouldn't need my advice," Rumsfeld added.

Furthermore, Rumsfeld touched on Yasukuni Shrine and other history-related issues in his speech and a question-and-answer session that followed a June 3 meeting in Singapore of the United Kingdom's International Institute for Strategic Studies (IISS), according to the Pentagon's press release. Rumsfeld noted that it would take time to completely make history a thing of the past when it comes to a war. "However, the United States and Japan have cleared it up as a thing of the past," Rumsfeld was quoted as saying. The Pentagon chief further remarked: "If other countries also can clear up their history as a thing of the past and look ahead into the 21st century, that would be in the interests of all these countries." With this, he criticized the stance of taking up the history of a war in the past as an international issue for the present.

Rumsfeld underscored the need for Japan and China to clear up their past history as a thing of the past. This point can be taken as hinting indirectly that China should exercise self-restraint over Yasukuni Shrine and other issues.

5) Political horse-trading intensifying over diplomacy toward China, with eye on LDP presidential race; Debate on Yasukuni issue refueled

The government and the ruling parties are intensifying political maneuvering over diplomacy toward China, with their eyes on the Liberal Democratic Party (LDP) presidential election in September. A group of lawmakers distancing themselves from the

TOKYO 00003151 004 OF 012

Koizumi administration are actively calling for the separate enshrinement of Class-A war criminals from Yasukuni Shrine, envisioning the possibility of making the Yasukuni problem a campaign issue. Meanwhile, Chief Cabinet Secretary Shinzo Abe and others have begun to mend fences with China by ending the freeze on yen loans to China and employing other policy measures. In the largest opposition Democratic Party of Japan (Minshuto), its President Ichiro Ozawa is looking into a visit to China, apparently motivated by his desire to shake the ruling camp.

"The best way is for Yasukuni Shrine to make a decision on separate enshrinement of (Class-A war criminals) from the shrine." This remark came from Bunmei Ibuki, head of the LDP's Ibuki faction, when he went yesterday to visit Taku Yamasaki, head of the Yamasaki faction, and referred to the prime minister's visits to Yasukuni Shrine in explaining to Yamasaki about policy proposals the Ibuki faction was considering. Yamasaki gave the nod to Ibuki as Yamasaki himself is of the opinion that separate enshrinement is one option to resolve the Yasukuni issue.

As a realistic approach, many in the LDP are skeptical about an early realization of separate enshrinement of Class-A war criminals. The question of separate enshrinement itself has divided the party. A group of junior lawmakers supporting shrine visits, including Hiroshi Imazu, yesterday met with Toshiaki Nanbu, chief priest of Yasukuni Shrine. After the meeting, Imazu told reporters: "I take special note of the shrine's opinion that it's impossible to separately enshrine them."

Lawmakers opposing Koizumi as well as Abe share the view that the first step for them to do for the presidential campaign is to create a mood for the Yasukuni issue and Japan-China relations to be made campaign issues along with economic disparities.

6) Chief Cabinet Secretary Abe trying to contain the Yasukuni issue to avoid it as a campaign issue

"It's undesirable diplomatically if policy is changed arbitrarily in accordance with a political decision by the government of the time." Junior coalition partner New Komeito Representative Takenori Kanzaki made this comment at a press conference yesterday, criticizing the government's slow decision about ending the freeze on yen loans to China. Taku Yamasaki of the ruling Liberal Democratic Party (LDP) echoed Kanzaki: "It must not be something used as material for diplomatic maneuvering."

At a meeting on June 6 of the Council for Overseas Economic Cooperation, the government decided to lift the freeze on yen loans to China and Abe announced the lifting of the freeze. Meanwhile, it was Abe's aide, Senior Vice Foreign Minister Yasuhisa Shiozaki who had suggested freezing the yen loans in March. Abe apparently has taken the lead in government coordination to decide its stance of "freezing" or "unfreezing," many observers said.

The LDP will tomorrow start going through necessary procedures in the party. A member of the party's Foreign Affairs Division revealed: "The explanation we hear is that the freeze came due to

TOKYO 00003151 005 OF 012

our division's opposition, but the fact is that the Prime Minister's Official Residence already had decided on the freeze."

A group of lawmakers who pay attention to former chief cabinet secretary Yasuo Fukuda, as a rival of Abe in the presidential

SIPDIS

race, took the ongoing move to improve relations with China as a policy switch to prevent diplomacy toward China from becoming a campaign issue.

7) Keizai Doyukai Chairman Kitashiro suggests "refraining from visiting Yasukuni Shrine," envisioning upcoming LDP presidential election

SANKEI (Page 1) (Excerpts)
June 8, 2006

The details of the April 21 executive meeting of the Japan Association of Corporate Executives (Keizai Doyukai) that adopted a set of proposals -- released on May 9 -- on the future of Japan-China relations came out into the open from statements by several participants in the meeting. The proposals urge the prime minister to refrain from visiting Yasukuni Shrine and seek to build a secular memorial facility for all war victims. The proposals were adopted unusually following the rule of majority, asking whether to include the Yasukuni issue in the proposals. Keizai Doyukai Chairman Kakutaro Kitashiro, chairman of Japan IBM, then suggested that the proposals envisioned the Liberal Democratic Party (LDP) presidential election slated for September. The Sankei Shimbun probes the behind-the-scene story concerning the adoption of the controversial proposals.

According to participants, the executive meeting was held at the Industrial Club of Japan at Marunouchi, Tokyo. It began before noon, and after the lunch, it dealt with such procedural affairs as a financial report in a businesslike manner. The proposals in question came up for discussion at around 1:30 p.m. or 30 minutes before the meeting was to close. After an explanation about the proposals was given, a heated debate took place between supporters and opponents.

One participant favoring the proposals that ask the premier to refrain from visiting the shrine scathingly criticized the Koizumi administration: "Japan-China relations cannot be restored under Prime Minister Junichiro Koizumi. I'm looking forward to a new prime minister who will take office in September." Another participant indicated he was supportive of the idea of building a secular memorial facility, arguing: "The problem with Yasukuni Shrine lies in its religious nature." On the other hand, one opponent rebutted: "(The proposals) would only help China to take advantage of our country's weakness, given that the prime minister is fighting the Yasukuni battle."

When their arguments got them nowhere, China Committee Chairman Nobuo Katsumata, president of Marubeni Corporation, who shaped the proposals, explained why the proposals have no mention of the propriety of the judgment made by the Tokyo Trials that tried Class-A war criminals enshrined at Yasukuni Shrine and asked Keizai Doyukai Chairman Kitashiro to make a decision.

"I hope to adopt the proposals without making any change. I'd like to decide whether to include suggestions about the Yasukuni issue in the proposals by voting," Kitashiro said and asked the

TOKYO 00003151 006 OF 012

participants to raise their hands if they agreed. The proposals were approved by a majority. But one opponent insisted, "It's not wise to submit this kind of set of proposals just before the prime minister steps down. How about delaying the submission of the proposals until after his retirement?" Kitashiro, apparently being aware of the LDP presidential race, argued against him: "The proposals do not mention 'Koizumi.' They envision the next prime minister. I'd like you to understand this point."

Kitashiro, however, denied links to the presidential race at a

press conference on May 23, saying: "I have no intention to submit them by choosing the timing." He added that the proposals were made as usual as the organization does when the new fiscal year starts.

8) Minshuto head Ozawa's visit to China in doubt

SANKEI (Page 3) (Full)
June 8, 2006

Ichiro Ozawa, president of the main opposition party, Minshuto (Democratic Party of Japan), is now hesitant about visiting China before the September presidential election of the Liberal Democratic Party (LDP). He is concerned that China may take advantage of his visit as propaganda against Prime Minister Junichiro Koizumi's trips to Yasukuni Shrine, which will likely become a major campaign issue in the upcoming LDP leadership race. Some Minshuto lawmakers have insisted, however, that Ozawa should play up a stance of attaching emphasis to Asia through his China tour, using his communication channels to Chinese officials.

The visit plan surfaced after Tsutomu Hata, supreme advisor to the party, traveled to China. During his meeting on May 11 with Hata, Chinese State Councilor Tang Jiaxuan invited Ozawa to visit China, saying, "He is an old friend." Referring also to both Hata and Ozawa, who belonged to the former Tanaka faction headed by former Prime Minister Kakuei Tanaka, who made efforts to open diplomatic ties with China, Tang praised their roles in improving Japan-China relations.

Ozawa and his aides once considered a plan to visit China in July after the current Diet session ends. Ozawa was expected to exchange views with Chinese officials on such issues as Yasukuni.

According to an informed source, Ozawa has determined that if he meets with Chinese leaders, he will be used by the Chinese government, which has taken a hard-line stance against the Koizumi government. Ozawa seems to have leaned toward canceling the planned September visit in order to devote all his effort to selecting candidates for next summer's House of Councillors election.

Ozawa stated in April 2002 when he was serving as president of the now defunct Liberal Party: "Japan could make several thousand nuclear warheads in a day." China formally criticized him for "irresponsible and provocative" statement, but the China side actually said to Ozawa, "You are right." Ozawa threw a wet blanket this spring in Tokyo on senior officials of the International Department of the Chinese Communist Party's Central Committee, saying, "You should not get carried away."

TOKYO 00003151 007 OF 012

The reason why China has sent out positive signals to Ozawa is because Beijing welcomes recent Ozawa's statements on the Yasukuni issue. He stated on an NHK talk show on April 9 regarding Class-A war criminals: "Regardless of what China and South Korea say, they bear the blame for having led the war." On June 6, too, he proposed removing the Class-A war criminals from Yasukuni Shrine, saying, "Yasukuni Shrine should be returned to its original state, under which the Emperor would be able to visit there formally."

Ozawa's view is that there will be no change in his position even he visits Beijing or stays in Tokyo.

There is a possibility that China may rattle its saber, using the Yasukuni issue as a bargaining chip for resuming summits by top Japanese and Chinese leaders. Ozawa's reluctance stems from his strategy of watching carefully the development of the LDP presidential race and moves of the Chinese side.

9) Minshuto's Noda seeks to check calls for removing Class-A war criminals from Yasukuni

SANKEI (Page 4) (Full)
June 8, 2006

Former Diet Affairs Chairman Yoshihiko Noda of Minshuto (Democratic Party of Japan) readied a set of questions yesterday that went: "If there is no problem in mourning the war dead, including Class-A war criminals, should official visits to Yasukuni Shrine by the Emperor and the Empress and the prime minister be constrained for the reason that they would be mourning Class-A war criminals?" His argument sought to check calls for removing Class-A war criminals from Yasukuni Shrine.

Noda took note of February 2002 transcripts of a private panel to consider a national mourning and peace memorial facility that reported to then Chief Cabinet Secretary Yasuo Fukuda. A panel member then asked: "Would Class-A, Class-B, and Class-C war criminals be included among the souls of the war dead (to be mourned at the national memorial service for the war dead)?" In response, the Health, Labor and Welfare Ministry said: "Our view is that such individuals would comprehensively be included among the war dead." Noda called this point into question once again.

Noda's questions read:

"It can be taken that the government has judged that it was no problem, domestically and internationally, for the Emperor and the Empress and the prime minister to official mourn the war dead, including Class-A war criminals, at memorial services and memorial facilities."

10) Yasukuni Shrine chief priest tells junior LDP members that removing Class-A war criminals from shrine is not possible

TOKYO SHIMBUN (Page 2) (Full)
June 8, 2006

About 30 members of a group of Liberal Democratic Party lawmakers supporting visits to Yasukuni Shrine for national interests and peace held talks with Yasukuni Shrine Head Priest Toshiaki Nanbu yesterday afternoon. Lower House member Hiroshi Imazu heads the

TOKYO 00003151 008 OF 012

group. To Imazu and others, Nanbu reiterated the shrine's position that it cannot remove Class-A war criminals from the shrine.

Imazu quoted Nanbu as saying: "Separate enshrinement has never been done since Yasukuni Shrine was established. It is technically impossible, and we have no intention of doing so in the future." Ahead of their talks with Nanbu, the group toured the Yushukan museum.

Initiated by then LDP Acting Secretary General Shinzo Abe, the group was launched last June by junior and mid-level lawmakers. The membership is about 130.

11) Thoughts on paying homage at Yasukuni Shrine: Interview with Michael Green, Japan Chair at CSIS: China's asking Prime Minister to stop visits was a "bad mistake"

SANKEI (Page 3) (Excerpt)
June 8, 2006

By Yoshihisa Komori in Washington

Former senior Asia director on the National Security Council of the Bush Whitehouse, Michael Green in an interview to this newspaper, spoke about Japan-China relations and the US' stance. He criticized China's demand that Japan's prime minister halt his visits to Yasukuni Shrine as a "bad mistake," and he stated that to improve relations, China needed to make the compromise. He noted that the Bush administration had no intention of becoming involved in the Yasukuni Shrine issue, and that its stance in the dispute between Japan and China was to support Japan as a democratic ally.

12) Aso to propose separating Takeshima issue in EEZ negotiations with South Korea

YOMIURI (Page 4) (Full)
June 8, 2006

In a meeting of the House of Representatives Foreign Affairs Committee yesterday, Foreign Minister Taro Aso said that he would go into the Japan-South Korea EEZ (exclusive economic zone) demarcation talks starting on June 12 in Tokyo based on the stance of respecting the agreement reached in the 1996 Japan-South Korea summit. The agreement called for promoting EEZ negotiations separately from the issue of sovereignty over the Takeshima/Dokdo islets.

Aso also said that in the upcoming talks, he would propose establishing rules, including a requirement of prior notification for maritime research in waters in which an EEZ boundary has yet to be demarcated. He was apparently keeping in mind the experience in which bilateral relations became tense in April over maritime research in waters near the Takeshima/Dokdo islets.

13) Ruling coalition wants Defense Ministry bill passed this fall: Kanzaki

TOKYO SHIMBUN (Page 2) (Excerpt)
June 8, 2006

TOKYO 00003151 009 OF 012

Takenori Kanzaki, representative of the New Komeito party, a coalition partner of the ruling Liberal Democratic Party, met the press yesterday and said the ruling coalition would give top priority to a bill raising the Defense Agency to the status of a ministry at this fall's extraordinary Diet session. "We want to pass the bill without fail," Kanzaki added.

14) Questions about raising Defense Agency to ministry

TOKYO SHIMBUN (Page 2) (Full)
June 8, 2006

Masakazu Kaji

The ruling coalition of the Liberal Democratic Party and the New Komeito yesterday held a meeting of their project teams, in which the ruling parties approved a bill to upgrade the Defense Agency to the status of a ministry. In response, the government will make a cabinet decision tomorrow on the bill and will present it to the Diet at the current session.

The bill purports to raise the Defense Agency, which is currently under the Cabinet Office as an external entity, to an independent ministry and task the Self-Defense Forces with international activities under the SDF Law. Its specific merits are equivocal. However, the Defense Agency has long desired the status of a ministry in order to improve the morale of its personnel.

The Diet, however, does not have enough time to deliberate on the legislation during the current session. The bill therefore cannot be expected to get through the Diet in the current session. Even so, the government will knowingly introduce it to the Diet.

Such a half-baked treatment of the legislation is what the Defense Agency asked for. Against this backdrop, there was a bid-rigging scandal involving the Defense Facilities Administration Agency's bureaucrats.

In the bid-rigging case, the DFPA was found to have allocated projects to its contractors so that its retirees can land jobs with them. In 1998, the Central Procurement Office, a one-time body under the Defense Agency, was involved in a malfeasance incident. The bid-rigging scandal, however, disclosed that the Defense Agency has not changed for the better.

The ruling parties sought to raise the Defense Agency to a

ministry. However, the agency came under fire for the bid-rigging scandal. The government therefore decided in February to forego introducing the bill to the Diet. Meanwhile, the ruling coalition, asked by the agency, decided again to present the bill to the Diet in the current session. That was because the agency promised to take preventive steps against such a bid-rigging scandal.

In fact, however, the Defense Agency has yet to come up with a final report of its in-house investigation of the bid-rigging incident. The agency has only dismissed those involved in the scandal and has yet to take oversight responsibility for it.

This is a scam. How can a scandal-tainted office of the government make a new start without paying for it? There is something unconvincing about this.

TOKYO 00003151 010 OF 012

The Defense Agency perhaps hopes for a fait accompli in the form of presenting the bill to the Diet. However, the bill will be shelved until this fall or later. Before doing so, the agency should look into the incident, pay off its charges, and straighten up.

15) Rate of successful government-presented bills at 90.1% -- fourth-highest under Koizumi administration -- due to failure to take advantage of numerical superiority

MAINICHI (Page 5) (Abridged)
June 8, 2006

The government and the ruling coalition decided yesterday to aim at getting 82 bills approved out of the 91 government-presented bills before the ongoing Diet session ends on June 18. The rate of successful bills would be 90.1% -- the fourth highest under the Koizumi administration, which has experienced six regular Diet sessions. The ruling coalition garnered two-thirds of the Lower House seats in last year's election. Discontent is growing in the ruling coalition with the government's management of Diet affairs that has failed to make full use of their numerical superiority.

The government presented 90 bills as of yesterday. It also plans to submit a bill on June 9 to upgrade the Defense Agency to ministry status. Fifty-eight bills had cleared the Diet as of yesterday. But given the prime minister's decision not to extend the ongoing session, the government and the ruling coalition intend to get 24 bills approved, including medical reform-related bills, and carry 9 bills, including a bill to revise the Fundamental Law of Education, over to the next session.

The lowest successful rate under the Koizumi administration was 84.3%, marked last year. The low rate was attributable to Lower House dissolution over postal privatization bills. The rate in 2004 was 94.5% despite the fact that the session was not extended, as this year.

16) Negotiations underway on Japan's participation in oil field development in East Siberia

NIHON KEIZAI (Page 1) (Full)
June 8, 2006

The Russian government disclosed yesterday that Japan and Russia have been engaged in negotiations on Japan's participation in a project to develop oil fields in eastern Siberia. Both sides are aiming to bring about an agreement during a Japan-Russia summit on the sidelines of the G-8 Summit (St. Petersburg Summit) in July. In order to transport exploited oil to Japan, the Japanese government also aims to reach an agreement with the Russian government to speed up its plan to construct a pipeline that stretches to the coast of the Japan Sea. The two governments will define the joint oil field development in eastern Siberia as the main element in their bilateral energy cooperation.

The Russian Ministry of Industry and Energy's fuel and energy department head Yanovsky said in an interview with the Nihon Keizai Shimbun yesterday that negotiations are underway between the Russian and Japanese governments. He then stated: "We are

TOKYO 00003151 011 OF 012

positively looking into JOGMEC's (Japan Oil, Gas and Metals National Corporation) participation in the development of oil fields in eastern Siberia."

According to informed sources, JOGMEC plans to finance 50% of Japan's oil-exploitation rights. Among Japanese private firms, Sumitomo Corp. and Inpex Corp. have expressed eagerness to invest in the project. The Japanese government hopes to pump out oil jointly with Russian firms and transport extracted oil to Japan through a pipeline.

Regarding the Pacific pipeline to transport oil in Siberia to the coast of the Japan Sea, the Russian government plans to construct, as the first stage, a pipeline stretching from an area near Lake Baikal to Skolonov and then export the product to China by railway. The Japanese government has been calling on Russia to quickly start the second-stage work to construct a pipeline stretching to the coast of the Japan Sea.

17) LDP tax panel chairman's draft timetable calls for sweeping reform in three stages, including consumption tax hike in FY2009

NIHON KEIZAI (Page 1) (Excerpts)
June 8, 2006

Chairman Hakuo Yanagisawa of the Liberal Democratic Party 's Tax System Research Commission has drafted a timetable for bold reform of the nation's tax system. According to the draft unveiled yesterday, the commission will discuss corporate tax cuts in fiscal 2007 as a measure to buoy the economy. The draft also proposes that the panel will discuss a review of the income tax system around fiscal 2008, including child-rearing tax cuts, and then a hike in the consumption tax, possibly in fiscal 2009. The report suggest that the panel will carry out reform while carefully watching the moves of tax revenues, but this issue will inevitably have some effect on policy debates in the campaigning for the LDP presidential race in September.

18) G8 Finance ministers to meet tomorrow: Cautious debate expected over rectifying imbalances; GOJ concerned about impact on forex market

YOMIURI (Page 9) (Full)
June 8, 2006

The finance ministers of the G8 will meet tomorrow in St. Petersburg, Russia, ahead of the full G8 summit scheduled there for July. One of the focuses will be "global imbalances," as exemplified by the massive US budget deficit. In the joint statement to be adopted on June 10, though, if the G8 strongly calls for the correction of imbalances, this could have an impact on the foreign exchange market, including trading of the yen against the dollar. The Ministry of Finance (MOF) intends to push for a cautious discussion.

At a G7 meeting of finance ministers and central bankers in late April in Washington, imbalances in the global economy was taken up as a major issue. The joint statement read in part: "Greater flexibility on exchange rates among emerging economies with large budget surpluses would be desirable." Market players took this to mean that the G7 had given its blessing to correcting the imbalances through a weak dollar. IN the three weeks following

TOKYO 00003151 012 OF 012

the G7 meeting, the cost of a dollar dropped by 8 yen.

Taking this into account, MOF is concerned about how the issue of imbalances will be handled at the upcoming summit. At a press

conference following a meeting of the cabinet on June 2, Finance Minister Tanigaki stated: "Relying solely on adjusting exchange rates will lead us astray. Each economy needs to address its own structural problems (such as fiscal reconstruction and economic structural reform).

It is believed that the United States on its part wants to avoid a situation in which a much weaker dollar stems the flow of funds into the country. Based on the bitter experience of the previous G7 joint statement, many economists believe that the joint statement will avoid any mention of correcting imbalances.

Nevertheless, there is still strong sentiment in the US Congress regarding the massive trade surpluses of China and Japan, and there is a possibility that the issue of imbalances will emerge at the July summit.

Another issue likely to be debated will be establishing a foundation for energy use and conservation in developing countries as a measure to deal with rising oil prices.

SCHIEFFER